

GENOVESE DRUG

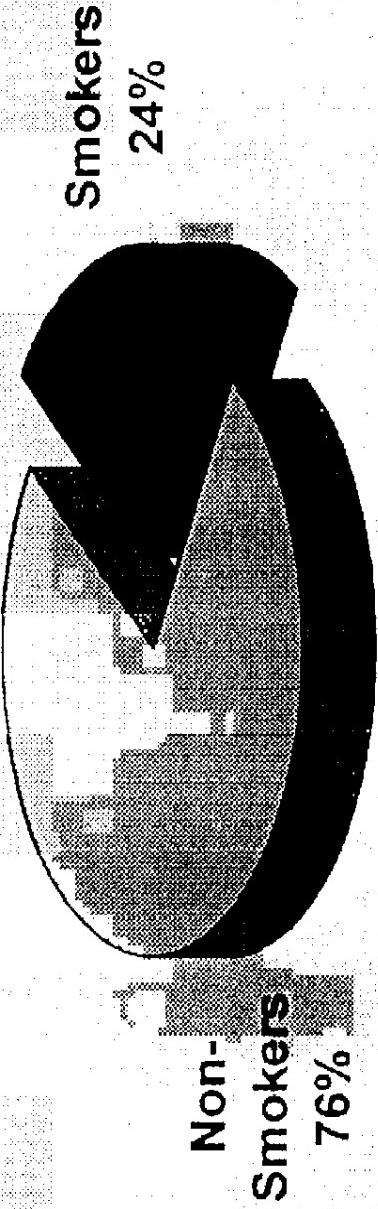
MERCHANDISING

1997

R.J. Reynolds Tobacco Company

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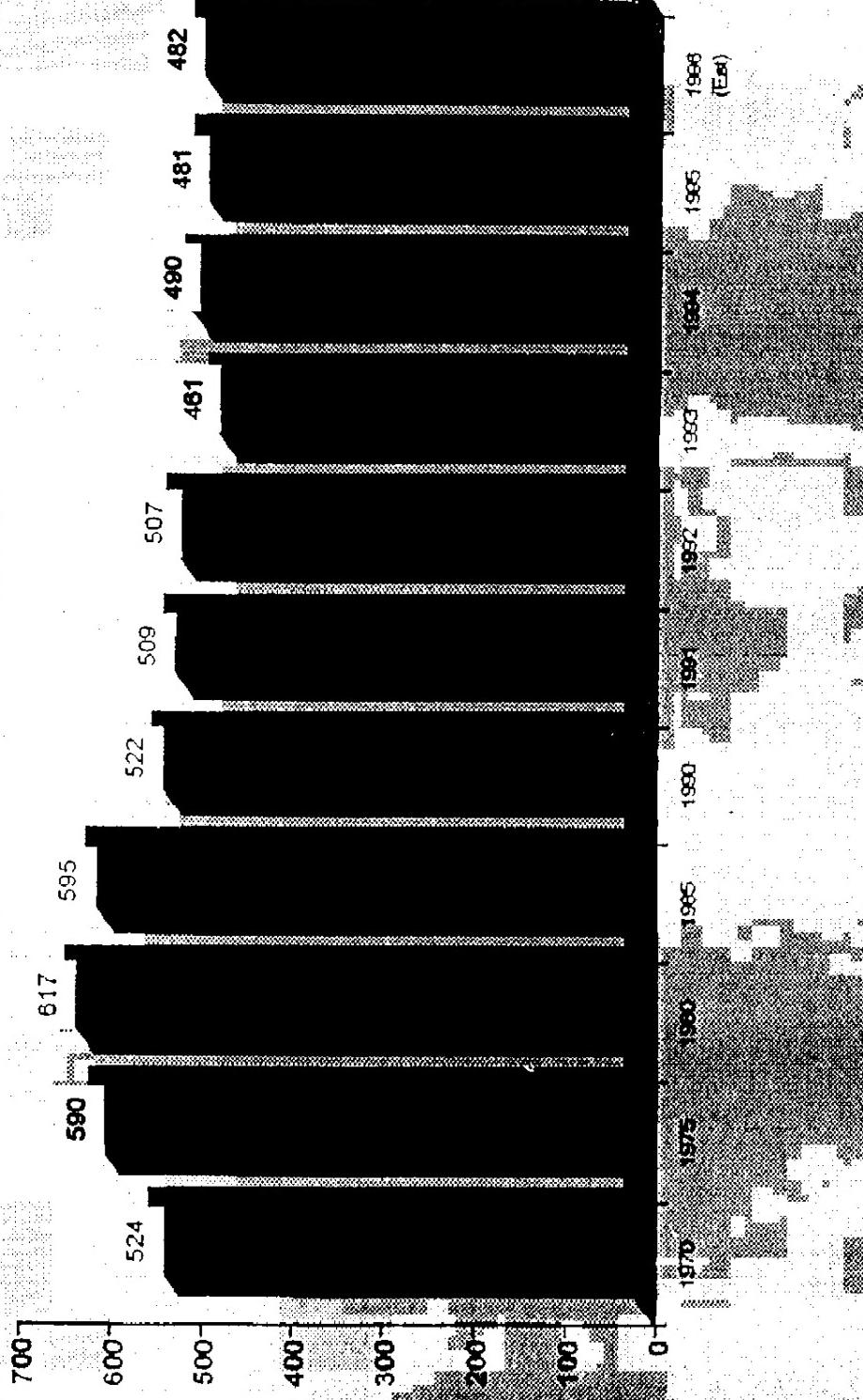
Smoking Incidence Percent of Total U.S. Adult Population



■ Approximately 46 million adults are smokers

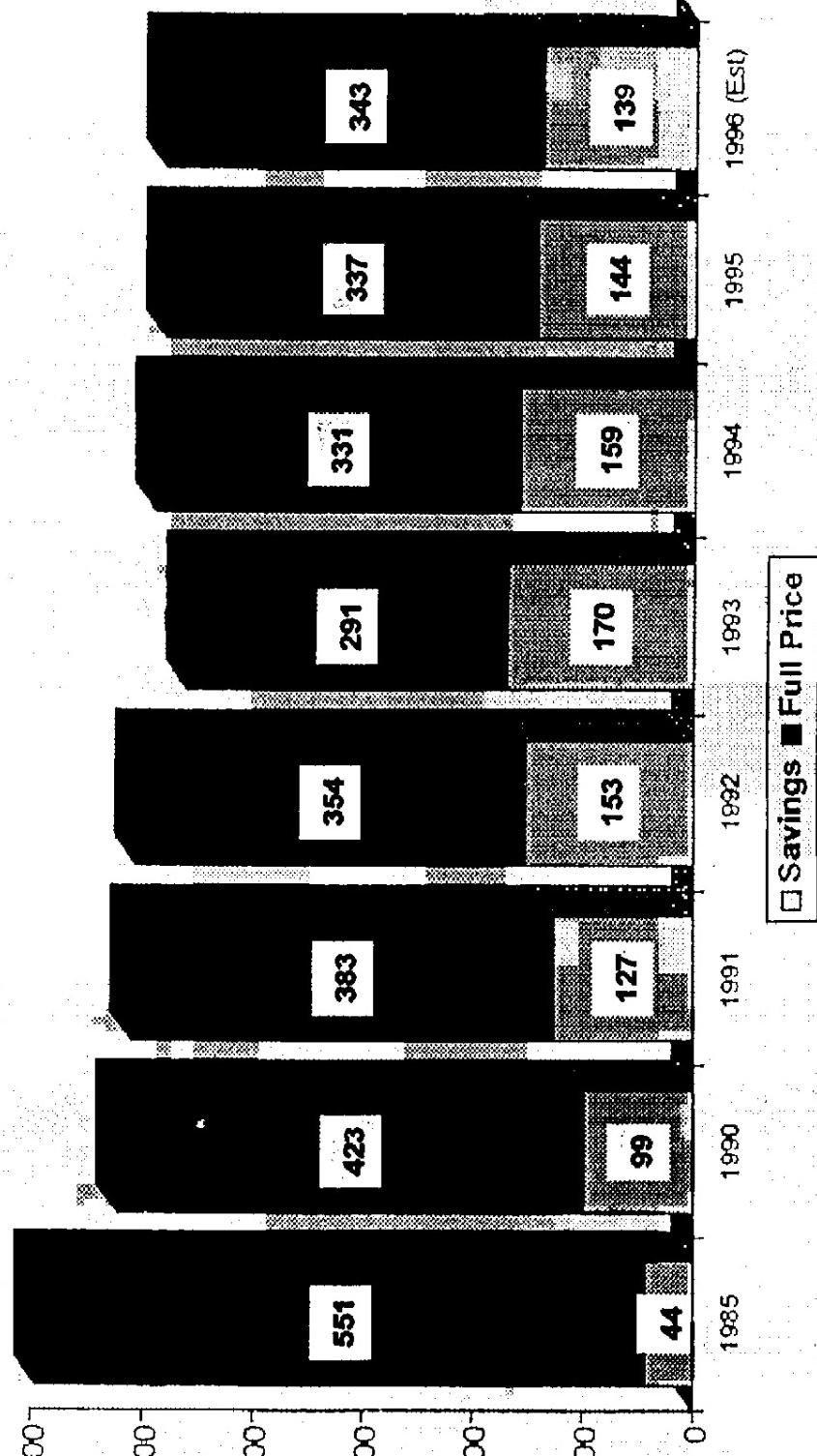
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Total U.S. Cigarette Industry Volume Billions of Cigarettes



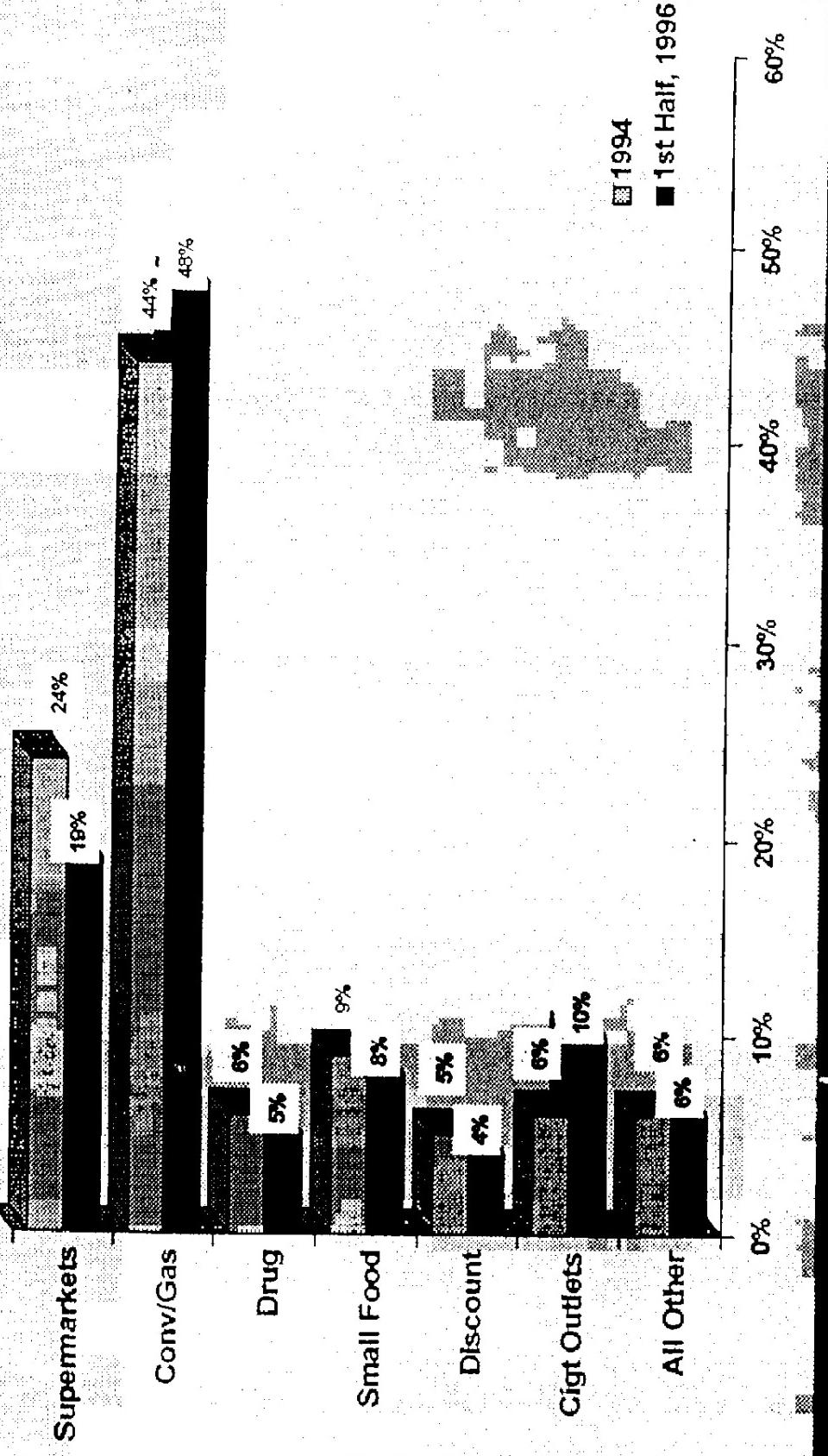
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Total U.S. Full Price and Savings Volume Billions of Cigarettes



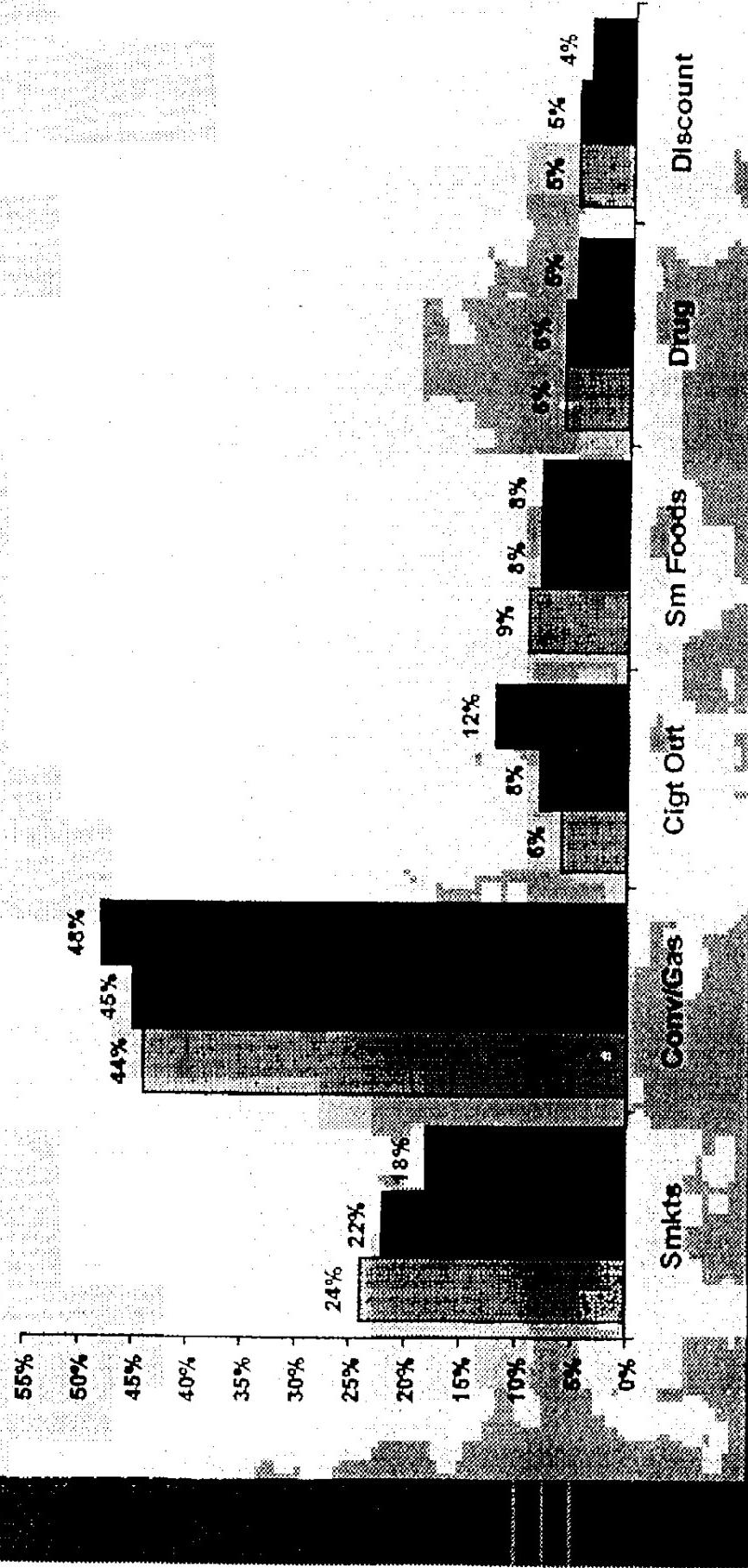
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"Where Consumers Purchase" Percent Cigarette Volume



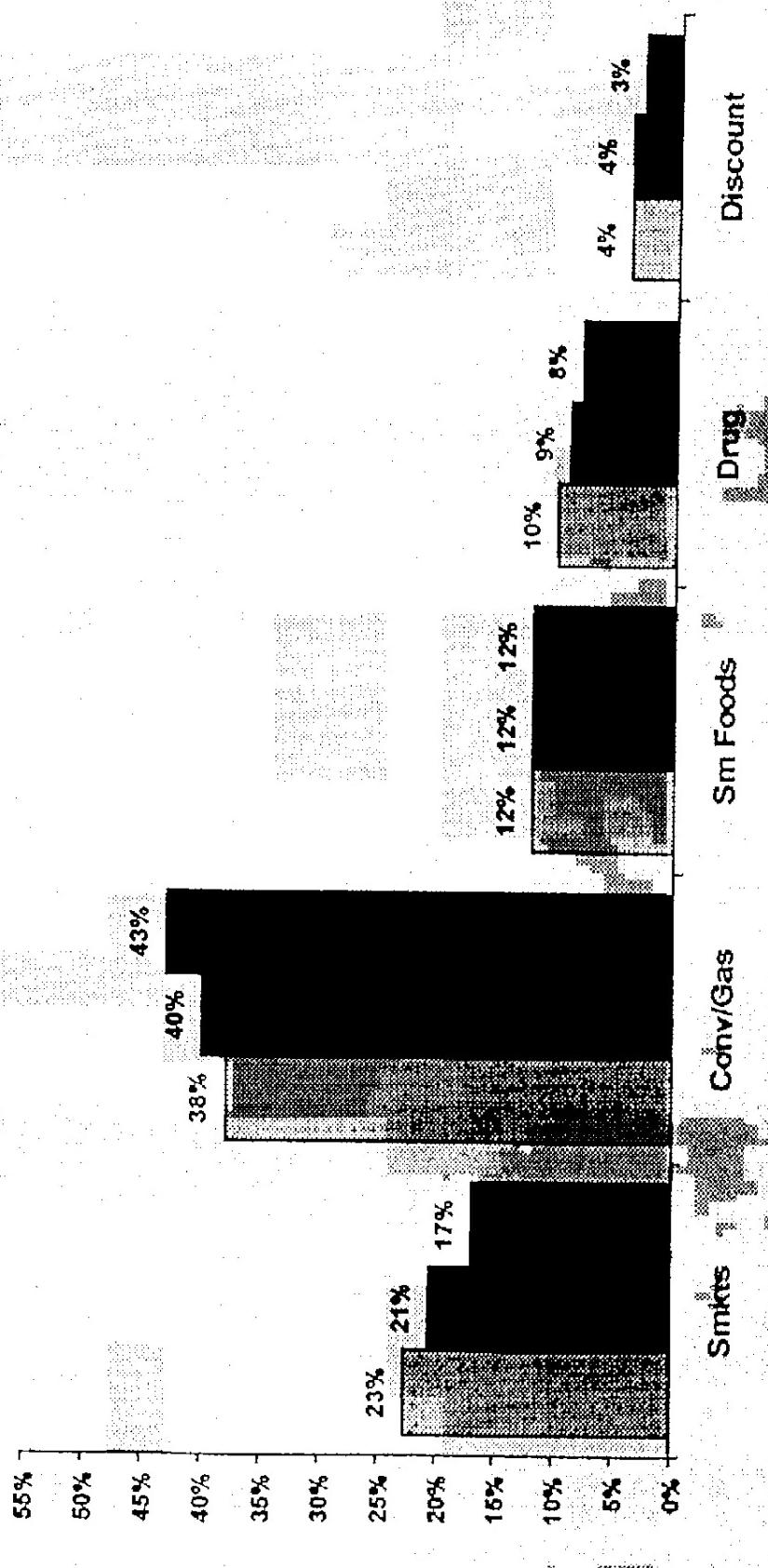
Total U.S. Percent Cigarette Volume Trends By Retail Segment

■ 1994 ■ 1995 ■ 1996 (Est)



Northeast U.S. Percent Cigarette Volume Trends By Retail Segment

■ 1994 ■ 1995 ■ 1996 (Est)

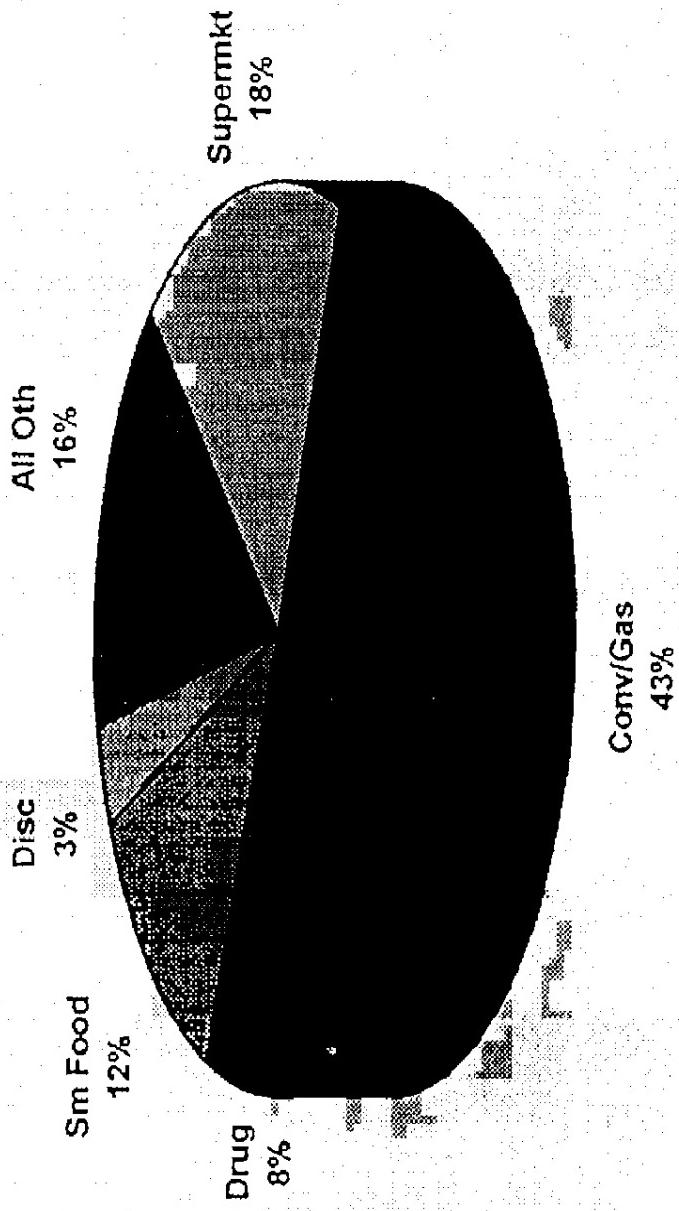


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"Where Consumers Purchase"

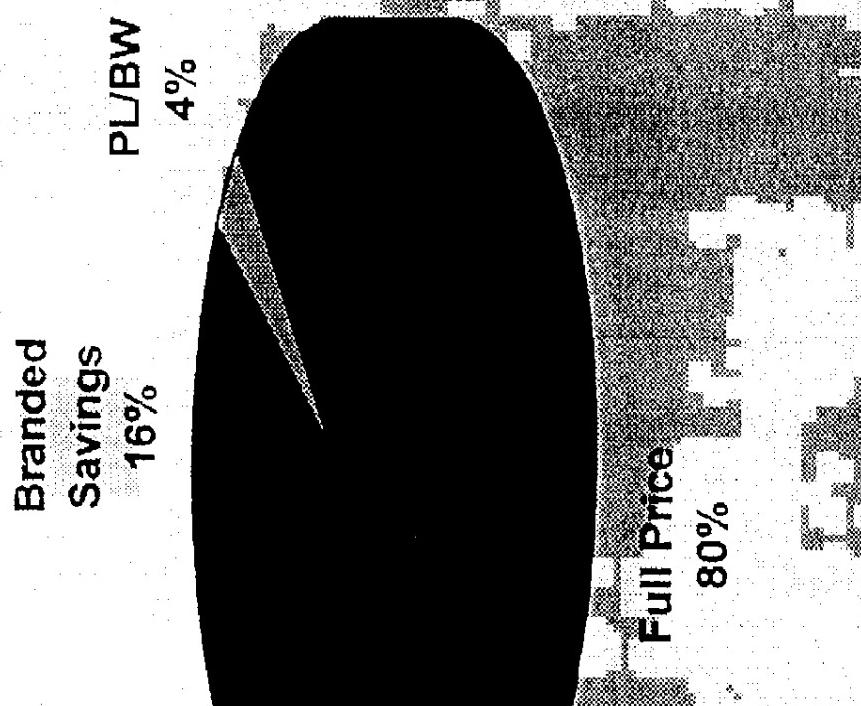
Percent of Volume - Northeast U.S.

1st Half, 1996



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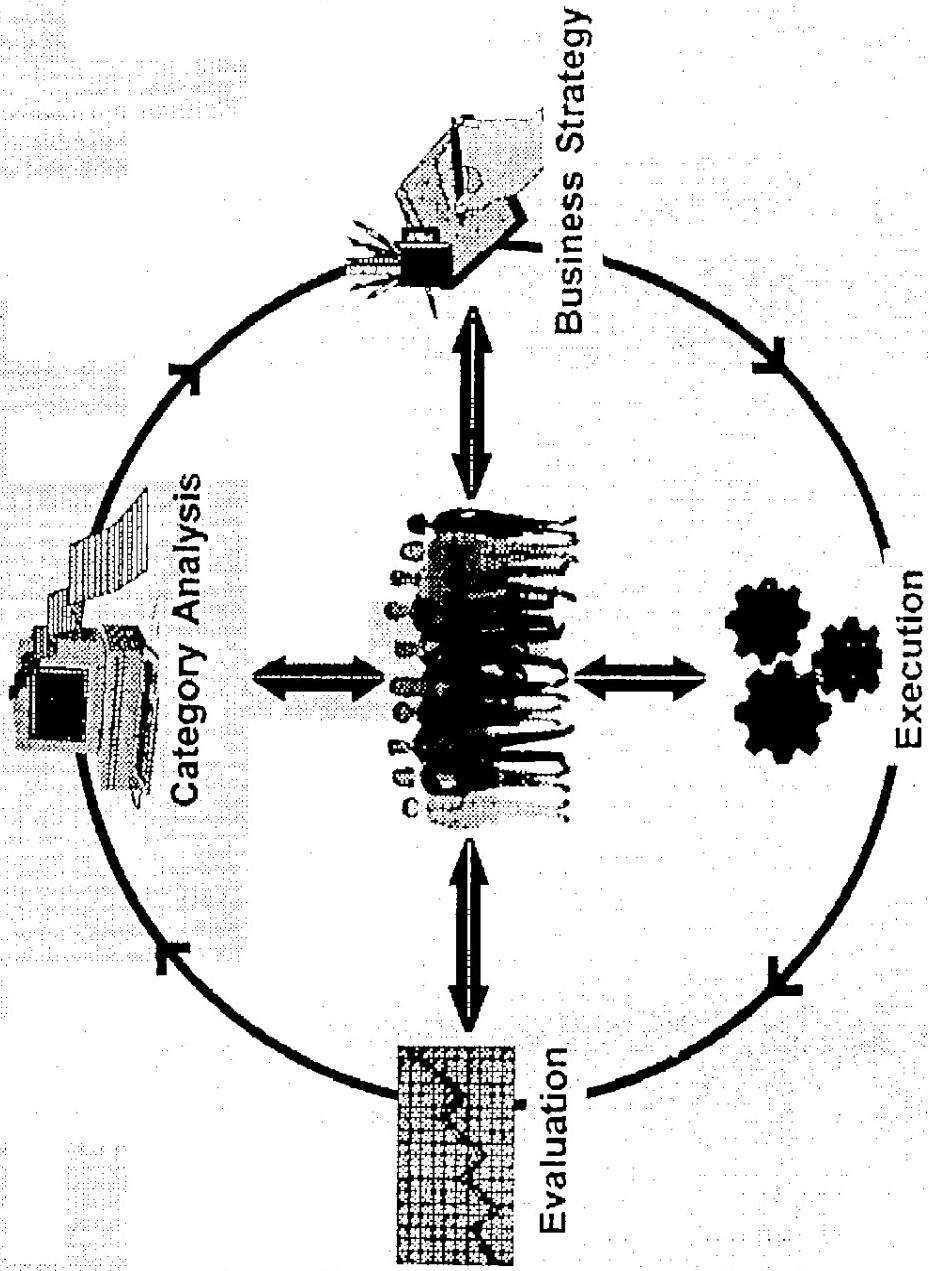
Total U.S. Drug Stores Share of Market By Price Tier 1st Half, 1996



Drug Store Facts

- Annual drug stores sales of cigarettes are expected to be around \$2.0 billion for 1996.
- The drug stores share of total U.S. cigarette volume is approximately 5%.
- Cigarettes account for about 5% of total drug stores all commodity volume.
- The average drug stores sells approximately 82 cartons of cigarettes per week.
- 51% of the cigarette volume that moves through drug stores is in cartons, 49% in packs.
- Drug stores are highly developed among female smokers, 50+ year-old smokers, carton purchasers, 100mm smokers, and ultra low tar smokers.

Cigarette Category Management



RJR Category Management Process

8616 LS815

RJR Cigarette Category Definition

- Simply stated - Cigarettes
- RJR further defines the category based on consumer perceptions of product characteristics which directly influence their purchase decisions.

RJR Category Management Definition

Category Management is a consumer focused, information based process of establishing strategies and making decisions on product mix, distribution, merchandising and service, in order to maximize consumer satisfaction and category profitability.

Key Elements Of Category Performance

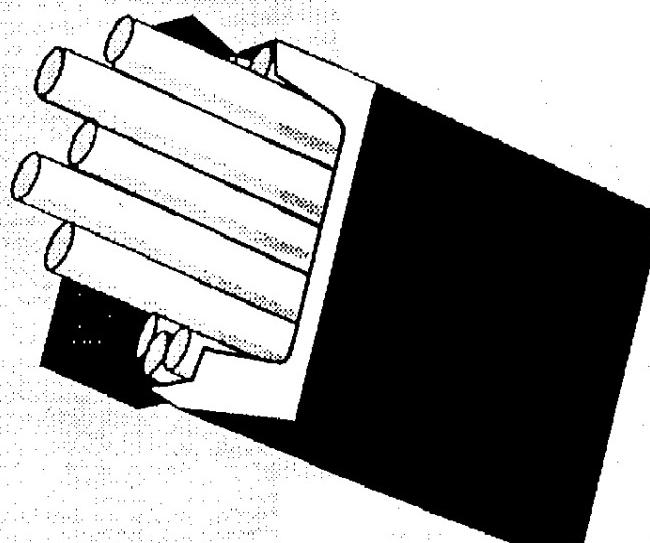
SKU / Inventory Management

Space Management

Profit-Effective Volume Building

Customer Service

External Influences

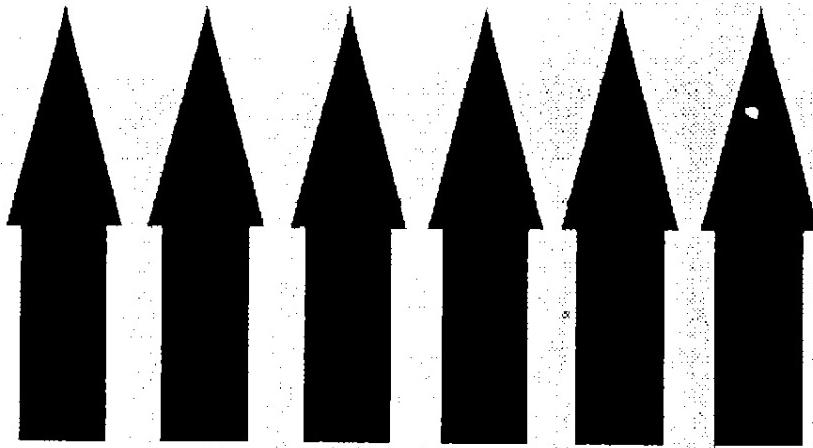


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Consumer Decision Tree

Is Based On Critical Product Characteristics

- Carton or Pack(s)
- Full Price, Branded Savings or PLU Blk & White
- Menthol or Non-Menthol
- Non-Filter, Full Flavor Filter, Lights Filter, or Ultra Lights
- 85mm, 100mm or 120mm
- Soft Pack or Box / - Normal, Slims or Widens

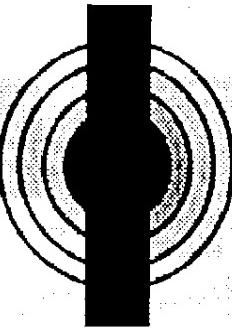


RJR Capabilities

RJR Can Act As Your Category Advisor, Utilizing Our Resources
To Help Build & Support Your Cigarette Category Strategy

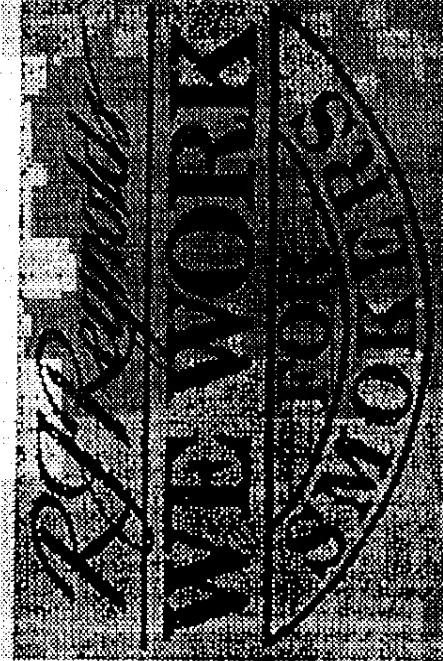
- Data Processing
- Marketplace Analysis
- Space Management
- Profitability Analysis
- Excise Tax Impacts
- Marketing Research
- Field Sales Expertise
- Trade Programs
- Merchandising Expertise
- Promotion Expertise
- Sports Marketing Expertise
- Direct Marketing Expertise
- Private Label Expertise

Profitability Through Category Management



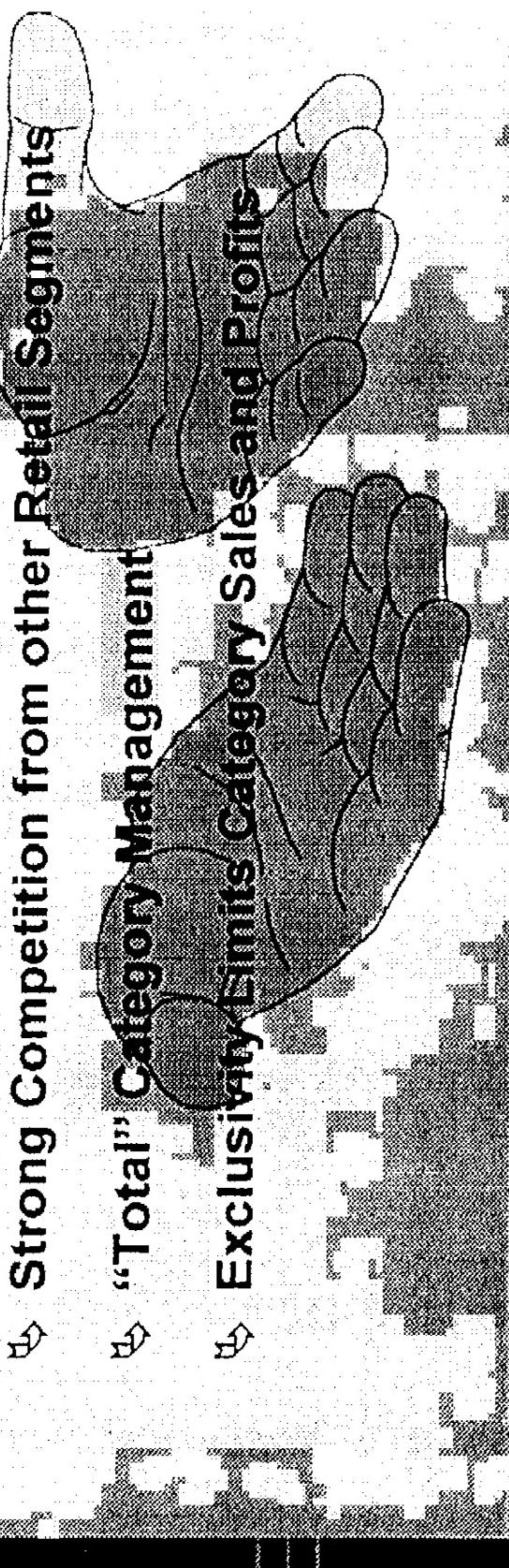
How Do We Capitalize On The Future?

- \$ Focus on the Consumer
- \$ Price Gap Pricing Strategy
- \$ Merchandise to Maximize Category Profitability
 - Display and Promote Top Selling FP Brands (Packs & Cartons)
 - Provide space according to Category Sales
 - Avoid Exclusivity
- \$ Reduce excess Inventory and SKU's of Lower Price Brands
- \$ Meet the needs of the Economy Buyer with a Value Brand
- \$ Innovative Pricing Strategies can capture Business ... 3 packs, 2 packs ...
- \$ Account (Store) Specific Marketing
- \$ Utilize Account Information Management Data (AIM)



What Does The Future Hold?

- ↳ Protect Profitability and Dollar Sales of Full Price Brands
- ↳ Inventory Control - A Must
- ↳ More Importance of Price Gap in Buying Decision
- ↳ Strong Competition from other Retail Segments



↳ "Total" Category Management

↳ Exclusivity/Simile Category Sales and Profits